

AUDITOR'S REPORT

PUBLIC INFRASTRUCTURE DEPARTMENT ARTHUR STOREY, JR. CLOSEOUT PROCEDURES AS OF JANUARY 31, 2015



September 23, 2016

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HARRIS COUNTY AUDITOR

September 23, 2016

Mr. John R. Blount, County Engineer
Office of County Engineer
1001 Preston, 7th Floor
Houston, Texas 77002

RE: Public Infrastructure Department Arthur Storey, Jr. Closeout Procedures as of
January 31, 2015

The Harris County Public Infrastructure Department was created by Commissioners Court as a reporting system for three infrastructure units consisting of two Harris County departments, the Office of County Engineer (OCE) and the Harris County Toll Road Authority (HCTRA), and a separate political subdivision, the Harris County Flood Control District (HCFCD). Mr. Arthur L. Storey, Jr., P.E. was the Executive Director of the Public Infrastructure Department and simultaneously held the positions of County Engineer, Executive Director HCTRA, and Executive Director HCFCD. Mr. Storey retired on January 31, 2015, and Commissioners Court elected to separate the Public Infrastructure Department back into the separate operating entities, as statutorily defined. As such, the Executive Director position of the Public Infrastructure Department was eliminated.

The Audit Services Department performed closeout procedures relative to the OCE. Audit Services performed procedures relative to HCTRA and HCFCD in separate engagements.

The procedures were performed in accordance with the Harris County Road Law and included the following:

- Selectively tested whether controlled and capital assets existed and were accurately recorded in the County's property and equipment inventory records.
- Verified bank account balances were accurately stated and account activity was accurately recorded in the County's Financial System (IFAS), bank reconciliations were timely and accurately prepared, and reconciling items were timely resolved.
- Determined whether the OCE's petty cash and/or change funds reconcile to their respective imprest balance and the balance is accurately recorded in IFAS.

Mr. John R. Blount, County Engineer
Office of County Engineer

The engagement process included providing you with a combined engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise judgment in completing the scope objectives. As the procedures were not a detailed inspection of all transactions, there is a risk that error or fraud was not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and ensuring sufficient controls are in place to detect and prevent fraud.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
R. Jack Cagle
Jack Morman
Steve Radack
Gene Locke
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

The objective of this engagement was to perform procedures in accordance with the Harris County Road Law (Section 10, Chapter 17, Special Laws, Acts of the 33rd Legislature, Regular Session, 1913, as amended by Chapter 422, Acts of the 66th Legislature, 1979).

As excerpted below:

“... upon the death, resignation or retirement of any officer or employee, the Auditor shall require an accounting of all property of every kind of the County or its political subdivisions of which he has custody, possession, control or supervision.”

RESULTS

Based upon the procedures performed in accordance with the Harris County Road Law, the OCE appears to have materially complied with the County’s policies and procedures for the following items as they relate to our scope procedures:

- The OCE’s petty cash and/or change funds reconciled to the imprest balance, and was accurately recorded in IFAS.
- The OCEs’ bank account balances were accurately stated, account activity was accurately recorded in IFAS, bank reconciliations were timely and accurately prepared, and reconciling items were timely resolved.

However, our procedures identified the following opportunities for improving processes in order to:

- Ensure proper safeguarding of assets by ensuring inventory asset serial numbers and locations are recorded in the IFAS Fixed Asset Module.
- Ensure timely removal of former employees from the County’s Signatory Cards.

These matters are discussed in more detail within the attached Issues and Recommendations section.

ISSUES AND RECOMMENDATIONS

Asset Serial Numbers and Locations

Background

Pursuant to the County's Accounting Procedures Manual A.2-2, *Accounting for Capital Assets Excluding Real Property*, County departments are responsible for accessing the IFAS Fixed Asset Module for Capital County Assets - Category I (defined as County personal property with a unit value of \$5000 or more) and updating the serial number, make, model, type, class and location of the asset as applicable as they are required to be recorded in the IFAS Fixed Asset Module.

Pursuant to the County's Accounting Procedures Manual A.1-1, *Property Handling Guidelines*, Controlled County Assets – Category II (defined as County personal property with a unit value of \$500 through \$4,999.99 that have a unique identifying number applied by the manufacturer) are required to be recorded in the IFAS Fixed Asset Module. Additionally, the County department must ensure the inventory records reflect sufficient identifying information that includes unique identifying serial numbers applied by the manufacturer when applicable.

Pursuant to the County's Accounting Procedures Manual A.1-3, *Inventory Internal Control Guidelines*, the following should be adhered to when physical inventory is counted; (b.) Inventory in remote locations or on consignment should be counted, (c.) a reconciliation and investigation of differences between the inventory records and physical inventory should be performed, (d.) Any physical inventory to inventory record adjustment must be approved by the department's Director, (e.) The physical inventory count should be compared to the inventory record after an inventory record to physical adjustment is made.

Pursuant to Local Government Code §262.011(i), *Purchasing Agents*, “on July 1 of each year, the county purchasing agent shall file with the county auditor and each of the members of the board that appoints the county purchasing agent an inventory of all the property on hand and belonging to the county and each subdivision, officer, and employee of the county. The county auditor shall carefully examine the inventory and make an accounting for all property purchased or previously inventoried and not appearing in the inventory.” Also, the County's Purchasing Rules and Procedures Manual section 11.2.1, *Inventory Responsibilities by Department*, states that each department is responsible for conducting an annual departmental inventory and comparing the results to the County Inventory Listing. Any reconciling items should be submitted to Purchasing.

Issue

As a result of our procedures, it was noted that the serial number and location fields for OCE assets in IFAS appear to be inconsistently completed. As this was not a test of controls, it is suggested that OCE evaluate whether all applicable asset serial number and location fields are appropriately completed in IFAS.

Incomplete recording of asset serial numbers and locations impairs the OCE's ability to

ISSUES AND RECOMMENDATIONS

safeguard assets, which could result in a misstatement of fixed assets and any associated depreciation expense in IFAS, misappropriation of assets, and/or financial loss to the County.

Recommendations

OCE Management should identify each serial number and location if applicable and record the missing information in the IFAS Fixed Asset Module as needed. This could be done in conjunction with the annual inventory required by the County's Purchasing Rules and Procedures Manual section 11.2.1, *Inventory Responsibilities by Department*. If no serial number is applicable, a notation in the serial number block should be added to state "not applicable" to avoid confusion in the future.

In Addition, OCE Management in conjunction with the County's Purchasing Department and the Auditor's Office should evaluate current asset and inventory policies to determine whether the asset and inventory policies could be improved prior to the implementation of the County's new ERP system.

Finally, the OCE, County's Purchasing Department and the Auditor's Office should consider establishing a monthly committee to evaluate current asset data and it's migration to the new ERP system.

Management Response

OCE Response:

OCE agrees with the recommendations.

Purchasing Department Response:

Purchasing concurs with the recommendations.

ISSUES AND RECOMMENDATIONS

Bank Account Signatory Cards

Background

Pursuant to the County's Accounting Procedures Manual C.5, *Opening New Bank Accounts*, authorized signatories for bank accounts must be County employees or Officials, and when a signatory leaves the County, that signatory must be removed as an authorized signer on all bank accounts. The Budget Management Department should be contacted by the department in which the signatory works, as necessary, to coordinate having authorized signatories updated.

Pursuant to the County's Accounting Procedures Manual C.5-2, *Bank Relations*, County Departments are to direct all bank service requests and inquiries, with the exception of bank deposit related inquiries, to the Budget Management Department.

Issue

One OCE employee was not removed from their bank account signatory card in a timely manner. Our procedures identified one OCE employee who retired on January 31, 2015 but was not removed as an authorized bank account signatory until April 28, 2015 or 87 days later.

Not ensuring that former employees are removed from all bank account signatory cards in a timely manner has resulted in noncompliance with the County's Accounting Procedures Manual C.5, *Opening New Bank Accounts*, and could result in financial loss to the County.

Recommendation

When an authorized signatory leaves a department within the County, the department should notify the Budget Management Department in writing immediately to remove the employee as an authorized signatory for all applicable accounts in accordance with the County's Accounting Procedures Manual C.5, *Opening New Bank Accounts*.

Management Response

OCE agrees with the recommendation